

Paraguay National Reform Program (NRP)

Final Report

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USAID/Paraguay

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Table of Contents

A.	Introduction and Summary	1
	Task Order Description and Requirements	2
	Program Institutional Framework	2
B.	Results Achieved	4
	Component 1: National Reform	4
	Reforms Identified	5
	Reforms Implemented	6
	A Participatory Decision Making Process	6
	Engaging the GOP Political Class in Policy Dialogue	7
	Component 2: Decentralization	8
	The Water Bill	8
	The Decentralization Bill	9
	Component 2b: Pilot Projects	10
	Departmental Education Councils	10
	Decentralizing Tax Administration and Collections	11
	Component 3: Local Government Fiscal Autonomy	12
	Component 4: Strengthening Local Governments Associations	12
C.	Summary of Problems Encountered in Implementation and How They Were Overcome	15
	1. Low Political Will on the part of the GOP for decentralization	15
	2. The Stakeholders in Decentralization lacked commitment	15
	3. The Project was too short-timed	15
	4. Needed Larger Core Staff	16
	5. Competition and Ill-Will	16
	6. Change in Government was Disruptive	16
D.	Lessons Learned	16
	1. Reforms should be “Stakeholder Appropriate”	16
	2. Strengthening Municipal Associations	17
	3. Progressively Strengthening regional associations first	17
	4. Advantage of a Senior Technical Advisor/Manager	17
E.	Program’s Significance and Highlights	17
F.	Recommendations	18

PARAGUAY NATIONAL REFORM FINAL REPORT

Implementation of the Paraguay National Reform Program

A. Introduction and Summary

This report describes the activities of the IQC Delivery Order in support of the Paraguay National Reform Program (NRP) in providing support to Paraguay's various local government associations in identifying and promoting various reforms of national and local government interest. The Delivery Order had four components: 1) identify and implement two reforms as a result of engaging the political class in a participative national policy dialogue with civil society; 2) develop National Decentralization policies, legislation and regulations and implement two decentralization projects; 3) develop three national strategies for improving local government autonomy; and 4) strengthen the capacity of local government associations to effect policy, legal and regulatory reform. This final report covers the three-year project from October 1, 2001 – September 30, 2004.

The basic project thesis was to develop, among relatively homogeneous groups of grass roots organizations, an ability to organize, identify common interests, align, advocate and develop methodologies and strategies for moving identified issues and interests into the national debate on reform.

The IQC Delivery Order was issued in response to a request various members of the local government community for assistance in finalizing and carrying out a decentralization agenda. Support given under this project was targeted for five sub governmental groups: the Council of Governors, AJUDEPA (Departmental Councils), OPACI (mayors), AJUMPA (Municipal councils) and the Red de Mujeres Municipales. Assistance was provided to strengthen the organizations internally and in terms of their capacity to carry out advocacy programs; to identify and develop, through participative decision-making workshops, strategies and objectives of common interest to all the members, to work with the press in informing public debate about municipality issues, and then lastly, to strengthen Paraguay's Congressional ability to hold public hearings to develop legislation in response to the local initiatives.

The project has had many highlights and first time accomplishments. The most notable has been the development and consolidation into one overarching group of the Federation of National Sub Governments. This group has identified legislation, reforms and institutional changes needed to make decentralization and local government strengthening successful. It has also led the way for grass roots organization in forwarding democratic reform issues of wide national priority. And it has successfully identified new ways of entry into Paraguay's national rule making and decision making systems. The second highlight has been the acceptance by Paraguay's Congress of an open, public hearing process, which will allow not only public information on, and more importantly public input into, Paraguay's legislative system. It will also enable greater technical input into what heretofore were decisions based mostly on national politics.

Task Order Description and Requirements

In September, 2001, USAID/Paraguay and ARD, Inc of Burlington, Vermont agreed to the terms of a Task Order under an Indefinite Quantity Contract for the implementation of a 36-month program under the Paraguay National Reform Program (NRP). The amount of the IQC was \$3,122,000.

NRP formed part of an integrated USAID strategy supporting the Mission's Strategic Objective No. 1. While supporting indirectly all of the Mission's Intermediate Results (IRs) under Strategic Objective No. 1, NRP was primarily expected to foster enactment of national level reforms through the promotion of dialogue, debate and assertive constituent activities by stakeholders at the local government level on a here-to-fore not highly responsive national government.

Program Institutional Framework

USAID/Paraguay's Strategic Objective 1 (SO1) is to Institute Key Democratic Governance Practices. To support achievement of the Strategic Objective, USAID identified three sub-results or (IRs):

- More effective and accountable local governments (IR 1.1)
- Development of an Active Civil Society Encouraged (IR 1.2)
- National Democratic Reform Process Expanded (IR 1.3)

Embedded in the IRs or intermediate results were problems identified by USAID (and others). IR 1's strengthening local governments aimed at addressing an extreme lack of confidence on the part of citizens and lack of responsiveness on the part of the central government in meeting citizens' basic needs. IR 2's strengthening of civil society was aimed at the problem of making the chiefly the central government more accountable, transparent and responsive. And IR 3's Expanding the National Reform Process was to address a significant lack of openness, inclusiveness, transparency and fairness in the formulation and structuring of national reforms, structures, institutions and procedures.

The overall objective of the Paraguay National Reform Program, in response to IR 3 within SO 1, was to expand the national level democratic reform process. To achieve the IR 3 intermediate result, four program components were established that formed the basis of the Task Order.

- 1) Identify and implement specific national reforms based on a participative national dialogue;
- 2) Implement decentralization policies and/or projects;
- 3) Develop national strategies for improving local government financial autonomy; and
- 4) Strengthen local (i.e., municipal and departmental government associations.

Specifically, to meet these objectives, the Program was to implement activities through four contractual components.

- **National Reform:** improvement of the legislative and regulatory framework through supporting initiatives that contribute to the national reform process;

- **Decentralization:** strengthening the decentralization process through developing specific national proposals and projects to improve the delivery of public services by sub-national governments to the citizenry; improving inter-institutional relations based on decentralization within and among all levels of government, demonstrating greater efficiency in the delivery of decentralized services;
- **Local Government Financial Autonomy:** developing strategies to strengthen the financial autonomy of sub-national governments;
- **Strengthening Local Governments Associations:** strengthening the institutional, technical and political capabilities of associations of sub-national governments, to make them more efficient and effective in fostering reform and decentralization, and to improve their capacity to become a counterweight to central government.

B. Results Achieved

Section 2 will demonstrate how the various four components necessarily work together and how the strategy of the overall success of the National Reform Program does not correspond chronologically to the Components as they are outlined in the Task Order. The section on lessons learned will address some of the possible incompatibilities of the component elements.

Component 1: National Reform

As defined by the Task Order, the expected result for Component 1 by the end of the Task Order is:

“Two national reforms will be identified and implemented as a result of engaging the GOP and political class in a participative national policy dialogue with civil society. Increasing participatory decision making, transparency, accountability and responsiveness by the GOP will be critical to the success of national reform.”

Inherent in the expected results are a series of qualities that individually and in tandem with others are required to meet this ambitious deliverable:

- ***Reforms identified;***
- ***Of those identified, two reforms implemented***
- ***A participatory decision making process (if the reforms are to be counted);***
- ***Engaging the GOP and political class in policy dialogue; and***
- ***Responsiveness, transparency and accountability on the part of the GOP.***

Reforms identified (participatively); two of the reforms identified implemented in a transparent and participative way, engaging the GOP and political class; participative decision making; and responsiveness on the part of the GOP.

The wording of this “deliverable” had been the subject of discussion numerous times between ARD and USAID. Two important elements were clearly outside the “manageable interests” of either USAID or ARD: behavior of the GOP decision-making institutions; and the behavior of a wide array of local government actors. On the first issue of manageable interest, which involved getting legislation actually passed through the national decision making machine, USAID and ARD agreed getting a well-designed, participatively derived package up to the Congressional level for passage would meet this condition and that any work beyond touched upon sovereignty issues. Passage of a new national Water Law set incredible precedence. Having made its way through the various local level reviews, changes, legal reviews and then final reviews and presentations, the Water Law did, in fact, pass the Congress’ national Chamber of Deputies, only to have it subsequently rejected by the Senate. It was then ratified again (overridden) by the Chamber of Deputies, sent again to the Senate and passed, only to finally fall victim to the intense union pressures which caused a final Presidential veto.

On the issue of managing stakeholders’ input and ownership, contradictions at times came up where the final product decided upon by the stakeholders did not meet the highest legal or

technical standards of the managing experts. ARD and USAID struggled with whether to let less than high quality work through without a final review tweaking by the experts. When this was done, complaints by the stakeholders were forceful. When this was not done (such as in the Water Law), certain technical weaknesses were cited as a reason for the bill's veto.

Reforms Identified

Reform identification took several forms in the earliest days of the project. The first was a Decentralization Bill, drafted by the Association of Governors with assistance from other donors. The Bill had technical problems and USAID and thus, ARD were asked by the Association of Governors to help address technical weaknesses in the bill. As what became the "Governors' version" of the Decentralization Bill was being worked on, ARD submitted it to both technical and more public scrutiny, especially on the part of the Municipal Level groups.

In two other cases, the Law of Public Administration (Ley de Ministerios) and Ley de Aguas, were submitted to ARD from members of committee of the Congress: the Ley de Aguas from Deputy Paul Sarabbi and the Ley de Ministerios from Senator Miguel Angel Ramirez. Again, the request for ARD's teams to put them into final technical shape and vet them publicly became part of the project.

Other legislative initiatives had more mixed origins. The Information and Transparency Bill, the Municipal Code and the country's Tax Reform Bill were all proposed for ARD work by both responsible committees of the two Congressional chambers as well as from various stakeholders.

With so many important reform issues already identified one way or the other, USAID asked ARD to accelerate the identification phase of our program. The model that evolved was one of holding various meetings with relevant local stakeholders, collecting through facilitated participatory seminars issues of priority to the groups, submitting the collection of issues to technical and legal experts to put into a suggestion for a proposed bill and then final review at the grass roots through the same facilitated seminars for final approval.

The ARD grass roots public seminars approach did identify other issues: Law of Waters, Development of a Municipal Law; Decentralization of the Education System; Tax Reform.

The presentation of the ARD-prepared decentralization law to Parliament was indefinitely delayed by the desire of the Federation to work with the Executive Power rather than presenting the draft directly to the Chamber of Deputies. The proposed law, though presented to the Vice-president of Paraguay in December, 2003, has not yet reached Parliament. Given this situation, ARD sought to find another national reform issue. The final national reform concept arose when, during ARD support to the Federation's Decentralization bill, a competing bill by the NGO Ciudadanos por la Reforma, also financed by USAID, had been developed and was ready to be presented to the Congress, and possibly others were in the offing. USAID wanted to ensure a transparent and open consideration of the two proposed decentralization laws and asked ARD to assist the Congress in helping establish the mechanisms for open, public hearings (Audiencias publicas). The original intention was to ensure public hearings specifically for the decentralization bills, but given the delay in presenting the Federation's version of the bill to Congress, it was decided to identify another national reform on which to hold hearings.

After having completed several workshops on public hearings in both chambers of Parliament, with both elected officials and employees, ARD was approached by several Deputies with requests to help them hold public hearings. The reform selected was an amendment to the Elections Law to change the way women are promoted on party lists that was to be considered by the Committee on Equity and Gender.

During the preparation for the hearing, the hearing itself and afterwards, ARD documented the entire process in order to include it in the “Practical Guide to Public Hearings”. This guide has been published and presented, not only to the members and employees of the Parliament, but also to members of civil society and all of the municipalities in the country. Deputy Nery Huerta specifically requested assistance in the development of regulations on holding public hearings and has been presented with a draft that he plans to introduce for consideration to the Chamber of Deputies.

The last reform identified for assistance was an Access to Information Law. In this case, instead of working with the local government associations, ARD assisted a lobbying group that was formed to promote the development of such a law for presentation to a bi-cameral commission that had been formed in Parliament to study the issue. In coordination with CIRD, ARD worked with a lobbying group of over twenty NGOs to develop a draft law. The entire process was participative, with members of the NGOs broken down into four committees working on the various aspects of developing and promoting the law. As of the end of the project, a draft has been completed and will be presented to the bi-cameral commission in the near future.

Reforms “Implemented”

The Law on Water Decentralization will be addressed in Section 2 because it represents much of how the process can work and was considered a successful ARD achievement. The Law on the Executive Branch reform, though well developed by public participation and wide press coverage as well as technically sound, was in retrospect not appropriate for a “grass roots” or local initiative since it involved considerably more than the local government aspects. It did not pass onto adoption.

While not obligatory, the development of procedural guidelines for public hearings in the Parliament is a major step forward in opening up the legislative process to participation by civil society and the citizenry in general. The great amount of enthusiasm that accompanied the implementation of this reform ensures its sustainability as more political parties adopt transparency and anti-corruption policies into their agendas. Given the interest expressed by both members of the Senate and the Chamber of Deputies, there is a good chance that at least one of the Chambers will adopt a policy or regulation on hearings in the near future.

A Participatory Decision Making Process

Developing a participatory decision making process to provide input and dialogue with central government leadership required organization, alignment, agreement and teamwork which simply was not present among the various actors who had been identified as local government representative groups. The contract identified four which were to constitute the base and a subsequent work plan added a fifth: 1) OPACI; 2) AJUMPA; 3) Consejo de

Gobernadores del Paraguay; 4) AJUDEPA and the fifth, the Red de Mujeres Municipales del Paraguay.

On the Public Sector side were proposed: Secretary of Reform (Water project); Technical Secretariat for Planning (Administration Reorganization); the two chambers of Congress, the Ministry of Education and the Ministry of Finance. The disorganization and lack of capacity so apparent on the local level political side was matched by a lack of openness by a wide variety of Central Government actors:

ARD's strategy in light of the vacuum of interest by the national local government groups was to hold workshops and seminars on the various issues and help strengthen local or departmental level sub-associations. By the end of the first year, 17 various sub national government associations, national and local were participating in the program with approximately 640 members.

The Particular Role of Paraguay's Press

Although most media can be associated with major actors in Paraguay, Paraguay's press is free and criticism of the government and any one else abound. Importantly, the public has significant access to the media, both for getting information and to informing public debate. The various municipal associations and later the Federation have used the media and particularly the press to significant advantage in forging public awareness of the issues of interest to the municipalities and decentralization.

Engaging the GOP political class in Policy Dialogue

The first step in establishing a national level dialogue with local leaders and other interested groups was identifying actors at the national level who shared objectives or sympathies with the emerging agendas of the local groups. A political map was drawn up, and then updated after national elections. It proved to not provide great insights into Paraguay's byzantine political decision making ways, but it did help to identify certain key actors who USAID and ARD would be able to interact with as the project progressed.

Early in the project a tri-partite Memorandum of Understanding was signed in the First Quarter between USAID, ARD and the Senate's Special Committee for the Reorganization of the Central Administration, or the Ley de Ministerios, as it was known. The chairman of that special committee was highly reluctant to open the process to wide outside scrutiny but, for need of technical assistance agreed. Paraguay was, and today still is, in need of a significant reorganization of their central administration, which has also been stipulated by various international financial institutions. The Ley de Ministerios became an agenda item on virtually all the local level seminars. As in all the cases, public input once a bill is being developed by the Congress is consultative, not binding. However, committee President, Senator Ramirez, took the vetted and publicly revised draft and added significant modifications of his own which were highly unpopular inside and outside of government, virtually annulling the dialogue process which had led up to the bill formulation.

The water bill faced a similar but less dramatic fate.

Early on in the process, Paraguay's then Vice Minister of Education, and soon after Minister of Education, turned out to be an outstanding supporter of organizing the country's education

system in a way that would improve quality and efficiency. Very early in the project they acceded to working with ARD in a pilot decentralization effort, which is further outlined in Section II, Decentralization.

As the project grew in effort and recognition, more local and central government as well as private stakeholders were identified.

Component 2: Decentralization

USAID's Task Order stipulated under its second component, basically two focuses in at least two areas:

“National decentralization policies, legislation and regulations will be developed and decentralization projects will be implemented in at least two ministries,” of which Finance, Education, Agriculture, and/or public works were identified.

Inherent in the expected results, as evolved in subsequent discussions with USAID, were two types of activities. First, the development of decentralization policies and legislation; and then the implementations of decentralization pilot projects in at least two ministries.

All parties realized that the first type of activity under component 2 and component 1 were similar with the possible difference being the level of importance for decentralization. Thus, the water decentralization bill and the Decentralization Bill were moved early on in the project to achievements to be accomplished in fulfillment of the first type of actions in Component 2.

Development of decentralization policies, legislation and the enabling environment.

Through intense and broad participatory sessions with stakeholders developed through facilitated workshops, seminars and public dialogues, the two bills identified in the original USAID Task Order were confirmed: The Framework Decentralization Bill (Governors) and a new Municipalities Law. In these same sessions and with equal forcefulness, a third piece of legislation was confirmed, namely the draft bill to regulate Article 6 of the Law No. 1614/2000 “General del Marco Regulatorio y Tarifario del Servicio de Provision de Agua Potable y Alcantarillado Sanitario para la Republica del Paraguay, or “The Water Law”, as it became known.

“The Water Bill”

The Water Bill was given highest priority because of the political sensitivity of the issue for local governments and the timeliness within the Congress to consider an amendment. The evolution of the water bill demonstrates on one hand how far USAID/ARD had brought Paraguay in its goal of democratic rule-making. The law's final disposition, however, shows that Paraguay is not yet free of the old pressures of national politics. ARD's contribution, however, was significant.

ARD's basic mechanism for participatory identification and heralding through the process was essentially five steps. The first step was workshops which identified the issues in general, and then in specific, sometimes in subsequent workshops. Such workshops were held in from six to ten areas of the country and hosted by one or more of the sub-level

government associations. The results were then compiled and ARD hired a group of technical and legal experts to hammer the proposals gleaned from the local seminars into a “proto-bill”. The proto-bill was then reviewed by almost identical facilitated seminars where comments, additions, objections and suggestions were discussed. Those local level inputs were then incorporated by the same ARD technical experts into a final bill. With considerable press coverage, the bill was then presented to the cognizant Congressional committees. Two types of discussions ensued: private discussions between members of the Congressional committees and the local government association members; or press conferences by one or both sides on the pros and cons of the bill submitted.

Once submitted to the Chamber of Deputies’ committee on Public Works and Services, the bill was unanimously approved and introduced to the floor. The Chamber of Deputies, which is voted representationally from districts, voted unanimously in favor of the Bill and sent it on to the Senate. The Senate, which is made up exclusively of party lists, and not wanting to face the wrath of public service workers, voted the bill down by one vote. By USAID/ARD agreement, ARD had achieved its result. But what had by that time become the united Federation of the five local government associations, was not seeing a victory. Taking the initiative, the Federation consulted former ARD constitutional lawyers, who after careful review of the Constitution identified a way for the Senate rejection to be overridden. The Water Bill went back to the Chamber of Deputies, needing only a simple majority, after which the Senate could only vote down the Water Bill with a two thirds majority. As a result, the Senate passed the Water Bill and it went to the President for signing into law. In the midst of considerable press coverage and the convergence of water company workers protesting in front of the Presidential Palace, President Duarte vetoed the Bill. The Water Bill had indeed been the first time that constituents learned how to have their voices heard in Congress and in the public forum. And for that matter, so did the Congress and the Executive Branch. Increasingly, laws and regulations of special importance will be formally and publicly vetted. As mentioned in the section on National Reforms, Paraguay’s Congress has already begun that formal process.

The Decentralization Bill

ARD’s first meeting upon receiving the Task Order was with the assembled Council of Governors. At that meeting, the Governors provided a booklet that very clearly outlined the Governors’ proposal for a Decentralization Bill. The Governors position was sound. The lack of responsiveness of the central government landed in their laps. Regional hospitals, schools, public works were totally non-responsive and were sitting right in their municipal capital. The Governors felt they needed quick action to be able to make these institutions more responsive to the Governors. The Council of Governors, whose members number 17, was really the only group that had any organizational power or political know how. As the other local groups became stronger through the public seminars and vetting process, and as the Governors’ project became more widely distributed and reviewed, two issues arose. First, the municipalities were more inclined to press for a less controversial Municipalities Law, which would organize their world and empower the mayors. The second is that the mayors, especially those who had municipalities larger than some of the departments, did not feel that the Governors needed the powers they were seeking as opposed to the mayors. Thus, the decentralization law was fraught with internal disagreements as well as external.

In March, 2003 USAID, the Council of Governors and ARD agreed to begin the process of submitting the Governors’ Decentralization draft to the myriad of citizen review committees.

The process developed was issue identification, revision, national input into a draft and final draft. ARD's accomplishment for the Task Order had been met. However, by that time, Ciudadanos por la Reforma, a non-governmental group, had completed a similar exercise and finalized a similar bill. The bills needed to be reconciled and it was decided to try to reconcile them and a third version that had arisen within the congressional committees, from whence the idea of an ARD program to assist Paraguay's Congress with a public hearing process.

Component 2b: Decentralization Pilot Projects

Strengthening the Departmental Education Councils

The Ministry of Education has had the longest standing reform program, going back 10 years, to the point of having established over time, entities of the ministry closer to the communities, such as their Education Nucleuses, Regional Educational Centers, Departmental Pedagogical unit, Department based management teams and most recently the Departmental Educational Councils (Consejos Departamentales de Educación, CDE).

In their agenda, the Ministry of Education has committed to:

- a. Promote greater participation on the part of the educational community;
- b. Transfer implementation of some programs, such as nutritional supplements, agrarian schools, etc to the departments.
- c. Provide greater autonomy to the actual educational units themselves.

For their part, the departmental governments had been dedicating parts of their own budget for construction and maintenance of schools and cafeterias, and the parents' associations have been increasingly participating in support.

Despite the Ministry's stated objectives and best efforts, until the early ARD Project, almost all of the responsibilities had been monopolized by the central offices of the Ministry of Education: education policy, curriculum, economic resources, technical/teacher support and administration with a very small part left to sub-national governments in infrastructure and naming of teachers. It was the creation of these CDEs or Departmental Education Centers which would address the issue of central entities maintaining power, through not sharing information or disregarding local input.

Specifically Paraguay Law n° 1264/98 General de Educación clearly adopted a decentralization option living a preponderant role in various areas to the departments and municipalities, creating through Chapter III, art 113 the CDEs in all departments of the country in coordination with each governor. While the legal part was promulgated, these CDEs were far from functioning, much to the frustration of the local entities.

In concert with the Minister of Education and Cultura and with USAID, ARD proceeded to support an effort with CIDSEP, who since early in the Project had been drafting its report on suggestions for decentralizing education and in July 2004 to operationalize its work in the strengthening of two CDEs in the departments of Cordillera and Central. Through workshops and technical assistance, the activity gave support to participative strategic planning, focusing on systemic vision, long term vision, flexibility, participation, analysis and commitment.

Similar workshops strengthened the development of an institutional operation plan, problem analysis (input, output, purpose, goal), planning matrices and suggestions for legal changes. The process also opened up participation to not only the original groups but to the Governor's office, the Departmental Council, all municipalities in the department, the MEC Departmental coordinator for supervision, the supervision of control and administrative support of the MEC, various universities within the department, teachers' colleges within the department, Parents' associations and other school related NGOs, teaching unions, students and the Church.

The Project has been deemed by both the Ministry of Education and Cultura and the Governors a full success in a final presentation on August 27, 2004. The CDEs confidently know their responsibilities, they have the skills to carry out these responsibilities, they are better prepared to dialogue with the central entities of the Ministry of Education and have already identified areas where they can support ad hoc decentralization activities in keeping with Ministry of Education goals. It is anticipated that the pilot Project will be replicated in all departments next year.

Decentralizing Tax Administration and Collections

Paraguay has one of the lowest tax burdens in the world. For the upcoming fiscal year, President Duarte Frutos has announced his intention to raise tax collections by 12 percent. As part of an experiment or pilot project to see if tax collections could be made more efficient by collecting central government taxes at the municipal level, ARD contracted Alter Vida to work with members of CONDAFAM in implementing a pilot project of an agreement with the Ministry of Finance to implement Administration and Tax Decentralization. In December, 2003, amid much publicity, the Minister of Finance signed agreements with three of the proposed municipalities, Pirapó and Obligado in the Department of Itapua and Naranjal in the Department of Alto Parana, to begin collecting central government taxes effective January 2, 2004. Professionals in the area of Ley 125/91 of the new tax code were hired as well as others in the areas of mentors and facilitators. In addition to training municipal workers directly related to the project, the project also held outreach training for tax-payers, professional accountants and others interested in the pilot-project. Included was a referrals office in Asuncion, run by competent professionals who could provide immediate responses to inquiries. The effort helped to establish an incipient but growing culture of confidence among tax payers and local authorities in terms of competency, honesty and transparency.

A base line was established to monitor progress of the collections project. The training courses were provided to municipal officials, outside accountants and the public at large. Importantly, an excellent relationship among CONDAFAM, the national tax authority and the project were established in order to channel all the support necessary. Technical themes addressed were on forms used for Tax administration; How to fill out form 800, Tax Payers who use recorded operations, the penal code and its relation to tax evasion and the National Constitution. Ten such workshops were held and 138 individuals attended each of the training courses.

By July 31, 2004, compared with the activity's baseline, tax collections had astounding increases:

▪ Naranjal	161.542.844	up 88 percent
▪ Pirapo	70.648.121	up 90 percent
▪ Obligado	462.843/489	up 160 percent

In accordance with the contract between the Ministry of Finance and the municipalities, the fees paid to each municipality were as follows:

- **Naranjal** **G 5,151,639**
- **Pirapo** **G 1,653,358**
- **Obligado** **G 10,218,388**

While the pilot was successful, and would well serve as a model for a nation-wide application, some areas for attention were also identified.

Municipal workers who were assigned to the project, given the amount of extra training and work should have received salary supplements; the commissions established in the contract with the Ministry of Finance did not sufficiently cover the costs of operations in the municipalities and should be raised, not only to provide full cost coverage but incentive as well. Finally, the lack of banking facilities in some municipalities cost the local governments extra for getting funds to the bank as well as lost revenues for the time the money was in transport. However, both from a real sense on how tax collection can be improved very dramatically very quickly in Paraguay and from the optic that tax collection can be bearable and believable, the pilot was considered a success and will be expanded to other municipalities.

Component 3: Local Government Fiscal Autonomy

USAID's Task Order stipulated under its third component that by Programs end:

“Three national strategies and/or policies for improving local government financial autonomy and increasing local revenue collection will be developed.

In developing the identification and development of strategies to meet requirements of Component 3, the same basic methodology was used as for legal and reform initiatives. Seven seminars in various parts of the country were undertaken by the facilitating group, Gestion Local. In the seminars, they collected a wide array of inputs which they then agglomerated into seventeen areas to give greater financial autonomy to municipal and departmental governments. The ARD experts, including home office support, worked through the analytical background of the emergent strategies and Gestion Local presented them to the committee led by OPACI to study the report. The OPACI committee determined that the three most important of those presented were:

- **A new municipal tax law;**
- **Organizational reform for institutional strengthening;**
- **A program for the improvement of the sub-national budget and modernization plan for financial administration.**

Although the USAID Task Order does not require more of ARD, the Federation has indeed included this work in its action plan for this year.

Component 4: Strengthening Local Governments Associations

USAID's Task Order stipulated under its fourth component the following:

“The technical and advocacy capacity of local government associations will be increased (in a sustainable manner) in order to effect policy, legal and regulatory reform and to improve democratic processes that address constituents’ needs. This will improve local governments’ associations’ ability to participate effectively in national policy-making and serve as a counterweight to the GOP.”

The organization, alignment and strengthening of what are now referred to as local government organizations was the foundation on which the project was based. The hypothesis to be tested by the project was whether grass roots organizations of any kind could wrench a political space and control from a closed, non-participative and non-responsive central government. The answer, from virtually any of the criteria established before and during project implementation – advocacy, counter-weight to the central government, consensus building, behavioral changes – point to a resounding success on the part of the program and one that is being replicated by non-governmental organizational groups and other here-to-fore left out political actors in Paraguay. Many of the project's original participants have moved into central government posts in both the legislative and executive branches, bringing with them, by their own accounts and those of others, new values and practices of participatory government and central government responsiveness.

Associations of sub-national Governments Strengthened

With the exception of the Governors' Council, which with 17 members had a manageable group, there was little organizational capability among the three groups identified in the original Task Order: AJUMPA, OPACI, and AJUDEPA. Indeed, there was lethargy, political infighting, and a long history of little action. With the exception of AJUMPA, which seemed interested in a new start, it became very difficult for the project to inspire or even get traction early in the project history. What the project did discover is that sub-elements of these associations were indeed active. The strategy was to strengthen them and from the very grass roots up, inspire and stimulate interest. As a result, in the first project year, the project engaged the National Municipal-workers Women's Network (Red de Mujeres) which was weak but extremely dynamic and ambitious as well as 12 regional associations, two of which Paraguari and Second Department, were actually created by ARD's project. The dynamic began to show results from the onset. By the end of year one, membership, a sound sign of public interest grew in all organizations, from 493 to 639. Predictably none of the increase was from the four Task Ordered identified national level groups. Interestingly, however, the Red de Mujeres Múicipes increased its membership from 51 to 160, despite the fact that the Red and many local municipalities had very real and physical limits on who could join the organization.

The organizational membership was but one of the suggestions that the sub-national government movement was gaining strength. The internal organizational structures of the departmental associations were becoming more clear, fair, and transparent, caused in part by their need to take decisions related to the participatory seminars and workshops as well as deriving direct benefit from workshops designed to strengthen their managerial capacity. This, in turn inspired similar organizational reforms in the national level groups, including OPACI, AJUMPA and Red de Mujeres, in particular, who organized in October of 2003 a national symposium on the groups strategy, rules and positions regarding various political issues. The Red de Mujeres, in particular, attribute their ability to strengthen their

management and impact to the direct involvement of ARD and in their eventual membership in the later created “Federation”, where for the first time, women’s issues and positions were part of agenda and political review process. The number of participants in the workshops, public dialogues, etc., implemented under the program in the first year, whether targeting specific strengthening activities or not, contributed to the increase in capacities reported in the areas of institutional consolidation and coordination. Three main events were used to monitor success rates which suggested coordination and management abilities, but focused on interest: The Decentralization of the Water supply, with a 72 percent attendance rate; the institutional strengthening seminars and workshops with a 201 percent attendance rate; and the Ley de Ministerios, with a 105 percent attendance rate.

Each of the associations received their own strengthening assistance during the project, depending on the needs of the particular association. For instance, AJUMPA now has new statutes with a more decentralized structure, due to program assistance. AJUDEPA has greater technical abilities, due to workshops received under the program. Most of all, the RMMP is almost unrecognizable from the organization it was at the beginning of the project. It has its own office in the Municipalidad de Asuncion, has a strong leadership and has become a force to be reckoned with in the political arena. They have received international attention and have been requested to speak at international gatherings in Bolivia, Paris and Argentina.

Level of Coordination/Working together.

Early in 2003, the interaction among the five sub-national government associations had been working together so well informally, and had so clearly identified and aligned a great majority of their objectives, that they entered into a “Federation of Sub-national Government Associations”, or the Federation. Now that the Federation has its own statutes, with the help of this program, it has become a force to reckon with. It has access to the President’s Office, other executive branch offices as well as congressional committees and the press. Its work on the Water Law and the Decentralization Laws have clearly opened up political debate in the congress, not only to the level of press information but beyond, to the level of formal technical hearings.

ARD’s direct efforts at strengthening the new Federation included a series of workshops beginning in December 2003 and culminating on August 2004 with a strategic planning workshop held in San Bernadino. In April, the NGO CIRD, with ARD support, presented a course on lobbying to the Federation members.

Sustainability

There are very few national level local government organizations who have managed to continue on after their outside support has stopped and few of those that have, have ever reached the levels of sophistication and effectiveness as Paraguay’s Federation. Sustaining it will be a tall order. ARD and others have stressed the need to have a narrow and well supported platform, so that support will be forthcoming from some sector when resources are needed. ARD has helped install and develop the Federation’s bylaws for organizational sustainability. And we have continued to find ways of reducing costs of events so as to have as few financial burdens placed on the Federation as possible. The test of sustainability is if the situation is no long reversible. We would suggest that the Federation and its members have come too far for reversibility to be a problem. Whether the Federation will be able to maintain its strong presence is another question. To do so, it will have to continue to find

financing from both members and outside, possibly through a Government allotment, and find a way to make sure that continuity exists after each election, when mayors, council members and governors leave their geographical posts, but also their Federation responsibilities.

C. Summary of Problems Encountered in Implementation and How They Were Overcome

1. Low Political Will on the part of the GOP for decentralization

Paraguay's political classes and central government remain relatively closed and non-transparent. Decentralization at the time of the project was something that they thought they might manipulate or would resist if forced upon them. The work done by the project's seminars in discussing the issues and benefits did have an important impact as many of the beneficiary mayors, governors and others won the elections midway in the project. As a result, there was more interest in dialogue and greater understanding of the issues of decentralization. The Water Decentralization law both proves that to some degree, a project can help loosen up the power-making process. But when the President, in the face of old power politics and union demonstrations, vetoes a bill approved by local associations, the Chamber and the Senate, the system is still not fully penetrable. In retrospect, some have suggested that had the President been more involved and brought in on the outset, this may have changed. However, the President was brought in very early in his tenure to a Federation meeting which discussed the Federation's agenda and declared to all: "I am a decentralizationist!".

2. The Stakeholders in Decentralization lacked Commitment, Will and Coordination.

The earliest records of the meetings with the various associations, with the exception of the Governors, told a story of lack of interest, in-fighting and ineffectiveness. The project proceeded to work with its regional members at the lower level and as certain organizations and actors within the regional organizations began to arise, the national level associations took more and more interest. Finally, if not serendipitously, the problem and resulting Ley de Aguas appeared, which was a poster-child for a cause around which all local government stakeholders could rally. And they did. Around that cause, the development of the Federation was originally built.

3. The Project was too short-timed to believe it could achieve genuine National Reforms and sustainability.

Comparing the experiences of nearby countries, three years is an extremely short process to believe a political group of actors can be organized, mobilized and directed into reforming national laws, regulations and institutions. The fact that the program did it was related to some externalities such as the water law issue and the presence of some very dynamic people who later entered the Congress. Similarly, establishing a Federation and assuming its mandate, financing and membership stability and sustainability in three years was no mean task. ARD has spent considerable time with working with their by-laws and strategic planning. But the project will not be there to make any mid course corrections.

4. Given the nature of the constant work and engagement as well as sustainability issues, ARD should have pushed for a larger “core staff” and fewer consultants.

That way, the project would have had much more continuity with stakeholders than going through intermediaries who may or may not have fully understood or shared our strategy.

5. Competition and Ill-Will among Sub-Contractors

The highly recommended sub-contractor to this project had very different views about both the company’s capabilities and what share of the project it would get. To try to address some of these problems and expectations, ARD began inviting offers from our sub-contractor’s competitor. That rivalry got out of control with continuous visits to USAID to complain about the other contractor or about ARD until a point where it was reaching the newspapers. In addition, both these sub contractors, internationally recognized firms, were simply too expensive for the project. As time and money got short, and ARD was forced to look for more inexpensive contractors, not only did costs go down but also the squabbling stopped as the two major sub contractors realized their part in the project was all but over.

6. The Total Change in Government during Project Implementation Was Disruptive.

During the three year project implementation, the central government, both houses of Congress, the Governors and the Mayors and respective Council members were changed by elections. First, the project was pretty much on hold from the time of the elections until the swearings-in of the newly elected, losing valuable time for the three year project. Secondly, there was a new cast of characters to get to know and get on board. Most had already known about the program and its efforts, so there was a quick learning curve, but the techniques had to be retaught. One upside is that many of the former partners/beneficiaries of the project went on to take higher offices in local or central government, thereby creating certain entrees into the central government that ARD did not have before.

D. Lessons Learned

1. All Reform Initiatives should be “stake-holder appropriate”. One overall objective of the project was to use the stake-holder system, in this case municipal associations to forge legislative and institutional initiatives and reforms. Since this had not been done in Paraguay in any serious manner before, the selection of themes for advocacy was left open to selection by the stakeholders. It can be argued, however, that in at least three cases, the stakeholders (the municipal associations) were not necessarily the main stakeholders affected by the proposed reform. The three examples were: The NGO law, the Transparency and Access to Information Law and the Administration Reform Law. In the case of the NGO law, municipality associations are not totally non-governmental organizations. As a result, it would be argued that NGO umbrella organizations or NGO advocacy organizations would more appropriately take the lead, even if using the same basic approach as established in the National Reform Program. Similarly, the initiative for transparency and access to information would best be led by transparency advocacy groups, as the members of the municipal associations arguably will be the object of transparency efforts as opposed to proponents of such efforts. While the Administrative Reforms Law does possibly have an important

element of decentralization, the overall effort involves the work of all the national institutions. In all three cases, the chances for a Federation-led initiative (as opposed to a Federation-supported initiative) were limited, since the Federation was not the prime stakeholder.

2. Strengthening Municipal Associations Can Be Central to Local Government strengthening and Decentralization. Local Government associations are in most countries extremely weak. Yet promotion of the enabling environment, legislative and institutional, very much depends on systems and structures appropriate to the municipalities. This project has demonstrated that functioning Local government associations can play that role. They can keep decentralization issues in the media and the public eye and they can train municipal officials as newly elected and/or hired officials enter the system.

3. One effective method for strengthening national level associations is progressively strengthening regional associations first. Upon project start up, OPACI, AJUDEPA and AJUMPA were all seriously weak, disorganized, ineffective and lethargic. After failing to inspire projects and activities at the national level, the project aimed at some of the highly motivated regional associations, which in turn, created interest by and pressure on the national-level associations. The dynamic inspired the further consolidation of the association process into the five member Federation of Sub-National Governments which is by all accounts a significant force in Paraguay politics today, a stated and major goal of the USAID project.

4. The Advantage of a Project Management Structure that includes a Senior Technical Advisor / Manager (STA/M). The Paraguay National Reform Program with USAID demonstrated the importance of the technical people, including Chief of Party, in keeping close and ongoing contact with a STA/M. During initial parts of the program, certain project decisions were taken using the best ideas of both the Chief of Party and the multivariate experiences in similar circumstances of the STA/M. The STA/M concept also provided USAID management to have its own line to ARD management in cases where there were questions about technical or management merit. In the case of the PNR project, the need became so apparent, the STA/M was in a position to take over, find the kind of leadership needed for the project and assure a smooth transition.

E. Program's Significance and Highlights

The USAID Paraguay National Reform Program aimed at creating a counter-force to a very closed and non-transparent system of decision-making in Paraguay as it required results to demonstrate the weight of that counter-force. That counter force has been created in the Federation of Sub-National Government Associations, or the "Federacion" as it is known. The Federation commands the attention of the press, the various departments of government, and at times, the Presidency with whom members met during the struggle over the Water Decentralization Law. It also increasingly commands the respect of international donors and the NGO community, with which it is destined to work in strengthening the dynamic it has created. The establishment of the Federation can be a model for promoting other stake-holder reform initiatives. Taking disparate groups of NGOs in favor of transparency or access to information and creating a large, forceful umbrella organization is a good example. Using the methods of vetting issues widely among all members, consensus building and advocacy such as was done under the National Reform program can help produce reforms in other areas.

The project has also succeeded in opening up on the two legislative bodies, both of which will henceforth hold official, public hearings on issues of national import. The Federation and now the NGO community are preparing to take advantage of these hearings.

F. Recommendations

1. The public hearings process of the Congress should be strengthened.

The system has been established, the expectations created and the rules codified in a book produced by USAID's program. The work to hold public hearings is significant and the Congress has few resources to bring to bear for public hearings. A system of "interns" from law schools or other university programs could be used for much of the organizational work and a combination of "interns linked to academic mentors" could be created for the technical preparations.

2. The Federation's capacities in providing services and training to members must be strengthened.

While it was the mandate of ARD to strengthen what became the Federation in all areas, the main deliverable was in advocacy, which by all accounts is the Federation's strength. However, to maintain support of its membership, the Federation will also have to provide direct benefits to members. Conversely, a strong local government system will need significant training inputs on a sustainable basis as new officials are elected or appointed and new laws, regulations and rules are enacted.

3. Promotion of other National Reform Issues, outside Government Decentralization should be headed by different groups but by using the PNR Federation Model. Essentially, PNR took a wide group of stakeholders and identified them with a series of reforms that were very directly and tangibly related to their wellbeing. As a result, ownership of the goals, methodologies, and elements of the reforms made for a forceful impact on national decision making. USAID could and should replicate this model outside the Federation. One ideal which immediately comes to mind is the Transparency and Access to Information Law, where USAID should identify as a large a number of members as the elements of the Pre-Federation and mold them into a well articulated Umbrella Organization, using the same vetting, media approaches, congressional contacts and hearings as the Federation did for Local Government issues.